

ARE CHANGING LABOR MARKET CONDITIONS AFFECTING FORMER WELFARE RECIPIENTS AND OTHER LOW- SKILL WORKERS?



A Report prepared by the

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INTRODUCTION

The success of welfare reform has generally been seen as dependent on the economy expanding rapidly enough to provide new job opportunities for those leaving the welfare rolls without having a significantly negative impact on other low-skill workers.¹ If job growth was not rapid enough, higher unemployment for low-skill workers and/or depressed wages in the low-skill jobs could result.²

Early evaluation suggested that economic growth was facilitating the transition of welfare recipients into employment through the creation of adequate numbers of jobs to absorb the new workers without having much negative impact on the low-skill labor markets.

A more recent study confirms this result. According to this study, “enough jobs materialized to employ not only those welfare mothers who began looking for work, but also other single mothers who had been unemployed as well.”³

With the slowing of the economy and consequent job losses in a number of sectors, a logical question concerns the effects on the low-skill labor markets and the workers -- former welfare recipients and others -- in those markets. If fairly rapid job growth was necessary in order to prevent deleterious effects and this job growth has vanished, what are the impacts? What are labor market conditions for entry level jobs -- jobs suitable for low-skill workers? Are low-skill workers being negatively impacted by labor market conditions?

Information permitting the measurement of these effects on individuals is not directly available. However, reasonable inferences can be made by examining the changing labor market conditions in Missouri, especially industry employment, in conjunction with the types of jobs associated with former welfare recipients and other low-skill workers.

This report will examine these factors.

¹ See, for example, Robert I. Lerman, Pamela Loprest, and Caroline Ratcliffe, “How Well Can Urban Labor Markets Absorb Welfare Recipients?”, *Assessing the New Federalism*, no. A-33 (Washington, DC, Urban Institute, 1999)

² *ibid.*, p. 3

³ Robert I. Lerman and Caroline Ratcliffe, “Are Single Mothers Finding Jobs Without Displacing Other Workers?”, *Monthly Labor Review*, July 2001, p.3

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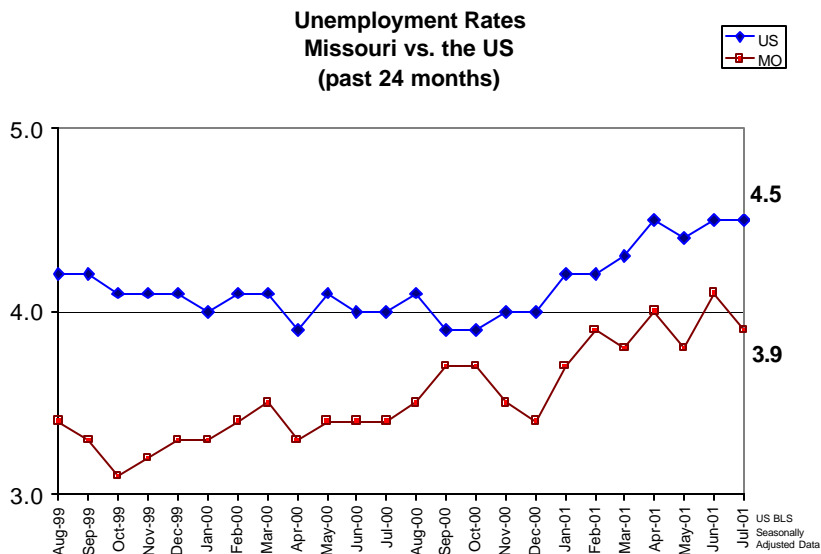
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MISSOURI LABOR MARKET CONDITIONS

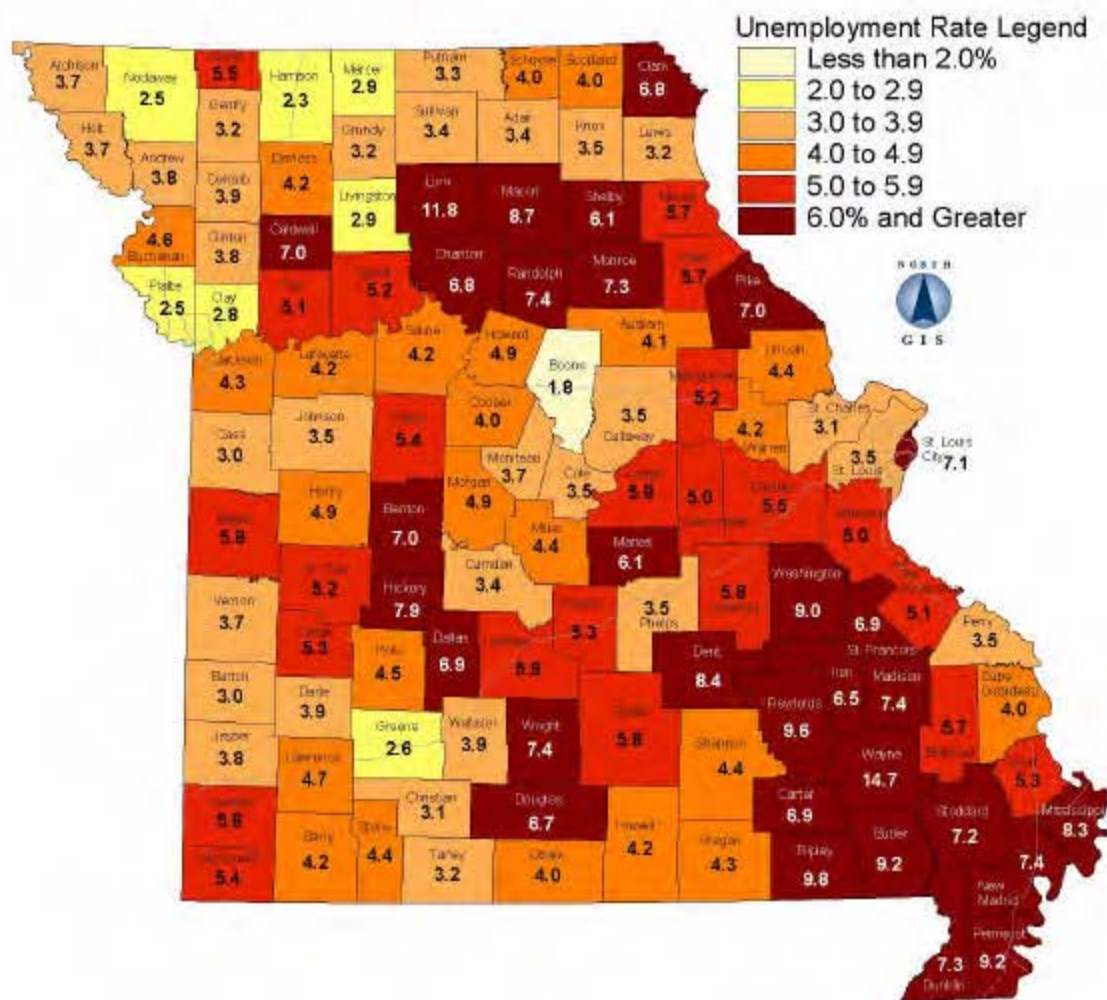
In Missouri, the seasonally adjusted unemployment rate reached a historical low in October 1999 – 3.1 percent. After remaining in the lower 3 percent range for some time, the rate has been rising irregularly since the middle of last year. The first half of 2001 has seen further increases in unemployment. Since the low of 3.1 percent in October of 1999, the unemployment rate has increased by 1.1 percentage points to 4.2 percent in June. That rate, though high in comparison to those of recent years, is still low by historical standards. About 124,100 Missourians are estimated to have been unemployed in June, an increase of about 37,100 since bottoming out in October 1999. It should be noted that unemployment fell back a bit in July, but it is too soon to tell whether this is the beginning of a trend or only a one-month phenomenon.

Unlike national data, where a large monthly sample in the Current Population Survey (CPS) allows the publication of detailed demographic characteristics of the unemployed, state unemployment data are aggregate estimates only, with no demographic detail. It is thus not possible to make direct observations about the effects of recent job losses on the employment or unemployment of specific groups.

Information about jobs, particularly the industry in which they are located, is more readily available, since these data are based on reports of employers, whose industries are known. Information about the personal characteristics of individuals who hold these jobs is not available, but reasonable inferences about the effect of job losses in various sectors can be made.



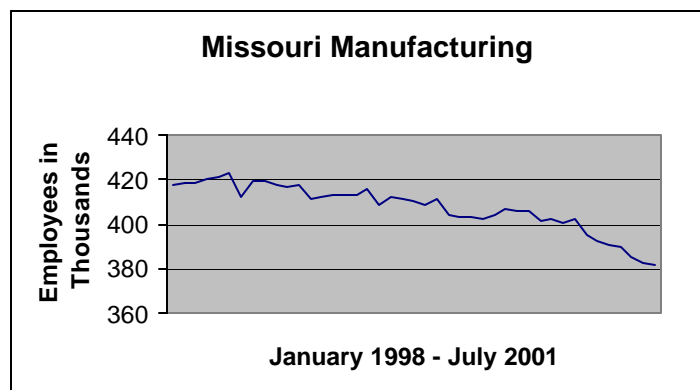
Unemployment Rate - July 2001



EMPLOYMENT CHANGES IN MISSOURI

Employment growth peaked in 1997 and has been generally slowing since. Perceptible slowing of growth took place in the middle of 1999 and again after the middle of 2000. Growth turned consistently negative at the beginning of 2001.

Since peaking in January 2001, seasonally adjusted nonfarm payroll employment has lost about 37,600 jobs. A disproportionate share of these job losses has been in manufacturing: 10,300, or 27 percent of the total. This figure actually understates manufacturing job losses, since those losses began earlier in manufacturing than in most other industries. Total losses of manufacturing jobs, since the recent peak of manufacturing employment in May 1998, has been 36,400 or 8.7 percent.



On a percentage basis, the loss of business services (SIC 73) jobs has been even greater. Over the past year (July 2000 to July 2001) employment has declined by 15,300, or 9.3 percent (see the chart on the next page). The majority of the losses have occurred since January; employment decreased by 12,700 jobs during that six-month period (on a seasonally adjusted basis.) Business services include a number of activities. The likeliest culprits for job losses are data processing and other computer related services and personnel supply services, particularly the “help supply services” that supply temporary and other contract workers for companies in many industries.

Since January, retail trade employment has dropped by 6,600 jobs (which is only a small percentage of the nearly half a million jobs in that industry group.) Employment in the services industries as a group has dropped by 7,200. Since business services alone lost 12,700 jobs, most other specific service industries have continued to grow, though slowly. Health services has expanded by 5,500 jobs. Some other service industries have lost jobs. Engineering and management services has lost 1,500 jobs (likely as a result of reduced demand flowing from problems faced by the businesses that utilize the services of these companies), while hotels have lost 500 jobs. (Again, all measures are seasonally adjusted.)



In a rather odd development, local government employment is down by 9,900 jobs, on a seasonally adjusted basis, since January. There is a fair chance that this represents seasonal adjustment or other temporary issues, rather than a trend loss of that many jobs.

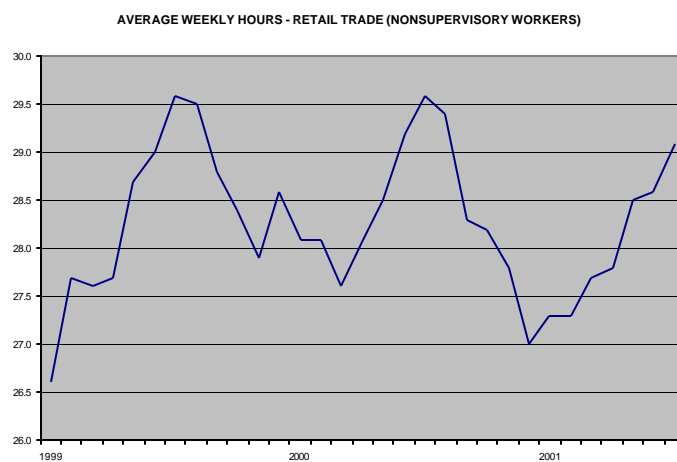
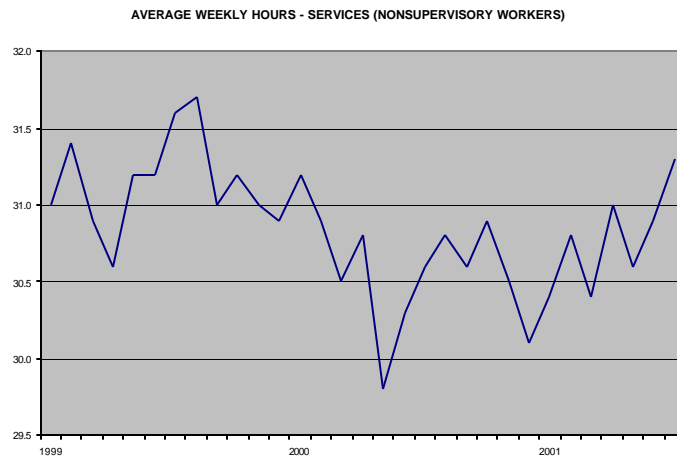
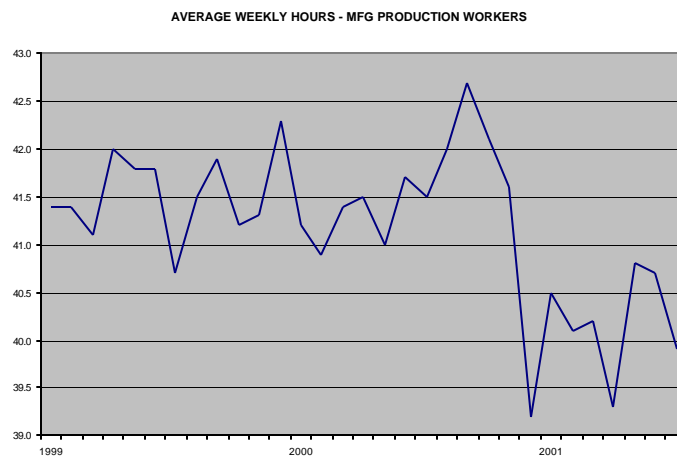
HOURS AND EARNINGS

Employers adjust their use of labor by means other than layoffs or attrition. Use of temporary or other contract workers may be reduced, and this is often the first adjustment made by businesses in response to weakening demand. Since these workers are technically employees of the help supply agency, any job losses show up in business services rather than in the industry where they were actually working. (See the description above.) Employers may also reduce overtime or otherwise decrease the hours worked by their employees. Though not as drastic as outright unemployment, this has a direct affect on the economic well being of the workers.

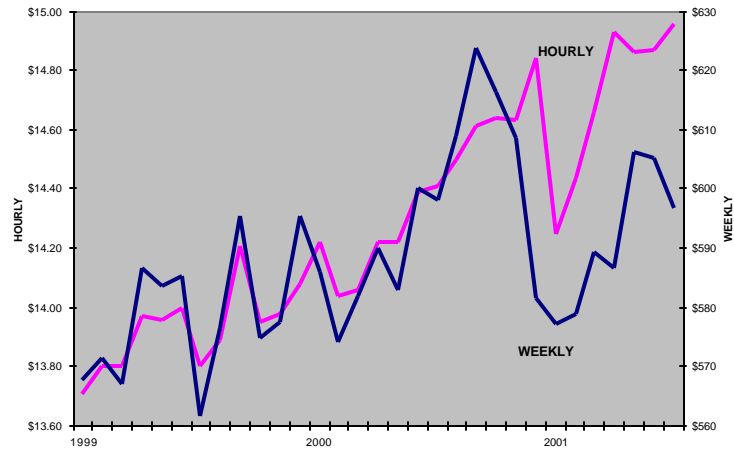
Hours worked by manufacturing production workers (sometimes referred to as the “factory workweek”) dropped off sharply in the last quarter of 2000. This figure has been edging slowly upward since, but with a lot of monthly variation. Hourly earnings, other than a sharp dip in January, have continued to increase. The reduction in hours worked has kept weekly average wages down, however. (See the chart on the next page.)

Hours and earnings in the private service-producing industries have generally been less affected. Typically the workweek of non-supervisory workers in the service industries averages about 31 hours. It is slightly less in retail trade, around 28-29 hours. These industries depend on part-time employment; most workers on part-time schedules are so voluntarily. Retail trade hours may be down, but only slightly. There is some seasonal variation in these hours that can confuse trend comparisons. (See the chart on the next page.)

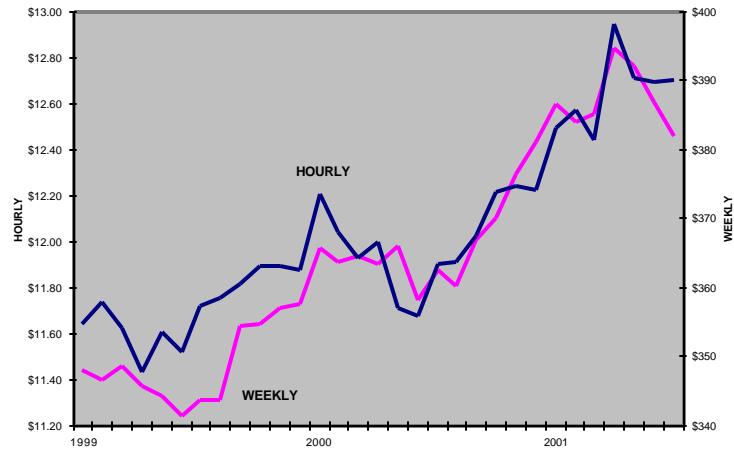
In general, implications about the significance of any particular changes in hours and earnings should be interpreted cautiously because of data limitations.



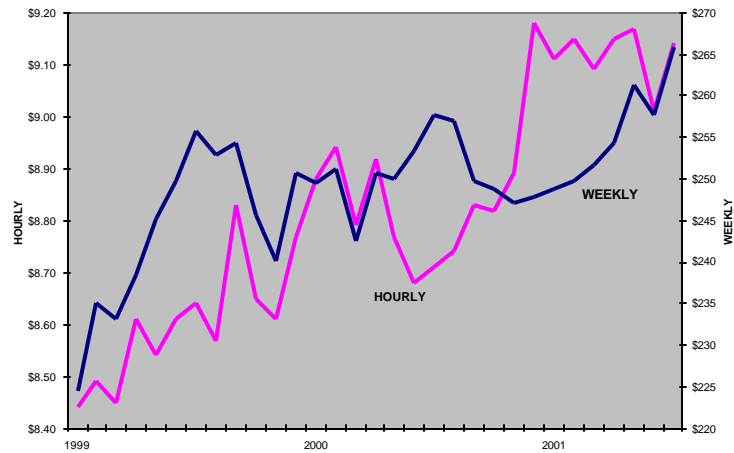
EARNINGS OF MANUFACTURING PRODUCTION WORKERS



EARNINGS OF SERVICES INDUSTRY (NONSUPERVISORY WORKERS)



EARNINGS OF RETAIL TRADE (NONSUPERVISORY WORKERS)



SOME NATIONAL OBSERVATIONS

Because additional data at the national level are available from the CPS, it is worthwhile to look at some national conditions. Missouri's economy mirrors the national situation quite closely, so national observations are frequently relevant for Missouri. The following observations are generally based on a comparison between July 2000 and July 2001 data.

- The increase in unemployment has resulted primarily from job losses, particularly permanent losses. Unemployment rates for those leaving jobs and those entering or re-entering the labor force are about the same as they were a year ago.
- Numerically, the greatest increase in unemployment has been among adult men, and among full-time workers.
- Unemployment rates are higher than average for teenagers (much higher than average for minority teens) and for women who maintain families. There has not been a disproportionate increase in unemployment in these groups, however.
- There have been increases in unemployment in most industry and occupational groups.
- Unemployment rates for individuals with less than a high school diploma are higher than for those with more education. The greatest relative increases in unemployment have been among college graduates and high school graduates, however.

TYPES OF JOBS HELD BY LOW-SKILL WORKERS

According to a recent study published in the *Monthly Labor Review*⁴, women in low wage jobs were predominantly employed in retail trade and service industries. Together, these industries accounted for more than 78 percent of low-wage women workers. The relative concentration of low-wage women workers in retail trade was particularly striking: 37 percent vs. 20.5 percent of all women workers. Nearly 11 percent of low-wage women workers were employed in manufacturing, only slightly less than the manufacturing percentage for all women.

In terms of occupations, more than a third of low-wage women workers were employed in service occupations, primarily food service (15.2 percent), health service (7.1 percent), personal service (5.5 percent) and cleaning and building service (4.9 percent) jobs. About 20.3 percent were in administrative support and clerical jobs, while 16.3 percent were in retail sales jobs. About 6.6 percent were machine operators or similar occupations.

More than 91 percent of low-wage women workers were in the private sector compared to about 85 percent for all women workers.

The table on the following page contains a list of growing occupations that generally require little training and are thus considered as likely entry-level occupations for employment of former welfare recipients and other workers generally lacking experience and training.

⁴ Marlene Kim, "Women Paid Low Wages: Who They Are and Where They Work," (*Monthly Labor Review*) September 2000

GROWTH OCCUPATIONS REQUIRING LITTLE TRAINING	
Teacher Assistants/Educational Aides	
Nursing Aides & Orderlies	
Home Health Aides	
Personal/Home Care Aides	
Child Care Workers	
Amusement & Recreation Attendants	***
Janitors & Cleaners	
Maids & Housekeeping Cleaners	***
Security Guards	
Maintenance Repairers, General Utility	
Laborers, Lawn & Landscaping (to a lesser extent)	
Waiters & Waitresses	
Combination Food Preparation/Service Workers	
Food Preparation Workers	
Cooks, Fast Food	
Dining Room & Cafeteria Helpers	
Cooks, Short Order	
Counter Attendants, Lunchroom	
Counter & Rental Clerks	***
Retail Salespersons	***
Cashiers	***
Receptionists & Information Clerks	
Stock Clerks, Stock Room & Warehouse	
Order Fillers, Wholesale & Retail	
Shipping, Traffic, & Receiving Clerks	
Hand Packers & Packagers	

***Could be adversely affected by downturns in economy.

IMPLICATIONS

What are the implications of these recent labor market developments for the economic well being of current or former welfare recipients or other low-skill workers?

- Low-skill, recently hired, and other more-marginal workers are usually at risk of losing their jobs or of otherwise being affected in economic downturns.
- Former welfare recipients and other low-skill workers generally lack the skills, seniority, and other characteristics that would allow them to maintain jobs or find new ones in a shrinking labor market.
- The majority of job losses have been in the manufacturing industries. Aircraft and parts manufacturing has lost 60 percent of its Missouri jobs over the past decade. Other significant losses have been in business services; many of these jobs may actually be in factories.
 - ✓ **As a whole, these industries probably are not major employers of welfare recipients and other low-skill workers.**
- Job losses have not yet been significant in retail trade and most service industries, sectors where much employment of welfare recipients and other low-skill workers is probably concentrated. Employment growth has slowed in those industries, however.
 - ✓ **Continued weakness in the economy would likely translate to lower employment in these industries as well and thus to fewer job opportunities for low-skill workers.**
- Hours and earnings have decreased somewhat in manufacturing. It is the loss in hours that has generally accounted for any decreases in average weekly earnings, as average hourly earnings have generally held up.
- Based on available data, hours and earnings do not seem to have been negatively affected in the retail trade and service industries that employ large numbers of welfare recipients and other low-skill workers.
- Worker displacement, resulting from global competition or other long-term trends, is more likely to be concentrated in manufacturing and less likely to affect welfare recipients and other low-skill workers.
- Even when there are no outright employment declines, a slowing economy can have negative implications on welfare recipients and other low-skill workers. Slow or no job growth tends to tip the balance in labor markets from having been a “job seeker’s

market” in recent years toward more of an employer’s market. When little or no hiring is taking place, employers can be more selective. Layoffs and other job losses mean that there is a larger pool of jobseekers available to employers. Welfare recipients and other workers with few skills and little job experience will thus face even larger barriers to employment.

- As job opportunities become scarcer, individuals seeking work may have to look further afield for jobs. Transportation barriers may thus be more of a problem than in a robust labor market.

CONCLUSIONS

The slowing economy has brought about many changes in Missouri’s labor market conditions. In general, the majority of job losses have been realized in the manufacturing and business services industries. Other service industries and retail trade have not yet seen significant reductions, but growth is slowing in these industries.

Also generally speaking, manufacturing industries are not major employers of welfare recipients and other low-skilled workers, but other service industries and retail trade firms have high concentrations of these workers. Continued weakness in the economy will possibly lead to two results: a continued slowdown in service-employment growth, and the increasing selectiveness of employers who are hiring. These conditions will likely translate to fewer job opportunities for low-skilled workers.